

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
Fairgrove, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with additional information)  
June 30, 2006

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# **AKRON-FAIRGROVE DISTRICT SCHOOLS**

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## **Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2006**

This section of the 2006 annual financial report presents our discussion and analysis of the School District's financial performance during the school year ended June 30, 2006. The intent of this discussion and analysis is to provide, in layman's terms, a look at the district's performance and past and current position. Readers should also review the transmittal letter, notes to the financial statements and financial statements to enhance their understanding of the district's financial performance.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### **Using this Annual Report**

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year.

### **Financial Section**

- Basic Financial Statements
  - District-wide Financial Statements
  - Fund Financial Statements
  - Fiduciary Fund
  - Notes to Financial Statements
- Required Supplemental Information
  - Budgetary Comparison Schedules

# **AKRON-FAIRGROVE DISTRICT SCHOOLS**

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## **Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2006**

### **Reporting the School District as a Whole – District-wide Financial Statements**

The district-wide financial statements are fairly new to our district. One of the most frequent and important question asked about our School District is, "As a whole, what is the School District's financial condition as a result of this year's activities?" The first two statements in the School District's financial statements are the Statement of net assets and the statement of activities. These two statements report information on the School District as a whole because they include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Akron-Fairgrove School District's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The School District's operating results come from the relationship between the revenues and expenses. Our School District's goal is not to generate profits, as do commercial entities, but is to provide services to our students. To assess the overall health of the School District, there are many non-financial factors such as the quality of education provided, along with the safety of our schools.

In the District-wide statements, the district's activities are classified as governmental activities. The District's activities include regular and special education, support services, community services, transportation, food service, and athletics. Property taxes, State aid, State and Federal grants finance most of these activities.

### **Reporting the School District's Most Significant Funds – Fund Financial Statements**

The fund financial statements do not report the School District as a whole; instead the fund financial statements provide detailed information about the District's most significant funds. The School District establishes funds that comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The General Fund, Debt Retirement Fund and the Capital Projects Fund are the District's major funds, which includes the instructional student and instructional support activities. There are additional funds that the School District also establishes to help it control and manage money for particular purposes, such as the Athletic Funds, Food Services Funds, and Student Activities Funds. Funds need to be established to show that it's meeting legal responsibilities for certain taxes, grants, and other money including the 1999 Bond Issue, which funded the voter-approved capital projects. The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using the modified accrual method of accounting, which measures cash and all

# AKRON-FAIRGROVE DISTRICT SCHOOLS

## Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2006

other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future to finance the School District's programs

In the fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

### The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District acts as the trustee for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### Financial Analysis of the School District as a Whole

The statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2005 and June 30, 2006.

<b>Table 1</b> <b>Condensed Statement of Net Assets</b>	<b>Governmental Activities</b>	
	<b><u>2005</u></b>	<b><u>2006</u></b>
Current assets	\$1,713,444	\$1,323,998
Noncurrent assets	<u>6,193,748</u>	<u>6,230,780</u>
<b>Total assets</b>	<b><u>7,907,192</u></b>	<b><u>7,554,778</u></b>
Current liabilities	638,423	569,902
Noncurrent liabilities	<u>5,692,959</u>	5,558,676
<b>Total liabilities</b>	<b><u>6,331,382</u></b>	<b><u>6,128,578</u></b>
<b>Net assets</b>		
Invested in capital assets – Net of related debt	354,178	555,017
Restricted	149,462	166,408
Unrestricted	<u>1,072,170</u>	<u>704,775</u>
<b>Total net assets</b>	<b><u>\$1,575,810</u></b>	<b><u>\$1,426,200</u></b>
<b>Total Net Assets and Liabilities</b>	<b><u>\$7,907,192</u></b>	<b><u>\$7,554,778</u></b>

# AKRON-FAIRGROVE DISTRICT SCHOOLS

## Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2006

The statement of activities shows the results of this year's operations for Akron-Fairgrove District Schools as a whole. Table 2 shows the changes in net assets of the School District as of June 30, 2005 and June 30, 2006.

<b>Table 2</b>		
<b>Statement of Net Assets from Operating Results</b>		
	<b>Governmental Activities</b>	
	<b><u>2005</u></b>	<b><u>2006</u></b>
<b>Revenues</b>		
<b>Program revenues:</b>		
Charges for services	\$ 54,413	\$57,389
Operating grants & Other Transactions	248,806	277,052
<b>General revenues:</b>		
Property taxes	599,774	552,721
State aid	2,804,433	2,690,887
Other	61,066	98,039
<b>Total revenues</b>	<b><u>\$3,768,492</u></b>	<b><u>\$3,676,088</u></b>
<b>Expenses</b>		
Instruction	1,859,275	1,716,105
Support services	1,337,076	1,339,573
Community services	11,275	10,623
Food Services	143,531	136,416
Athletics	112,792	116,664
Capital Projects		36,691
Interest on long-term debt	173,203	239,654
Amortization		17,110
Unallocated depreciation	205,555	212,862
<b>Total Expenses</b>	<b><u>\$3,842,707</u></b>	<b><u>\$3,825,698</u></b>
<b>Increase (Decrease) in Net Assets</b>	<b><u>(\$74,215)</u></b>	<b><u>\$(149,610)</u></b>

The beginning net assets of the district were \$1,575,810, the ending net assets were \$1,426,200, the net assets of the District decreased by \$149,610 during 2005/2006 year. Table 2 shows the breakdown of this change. The Statement of Activities presented later in the government-wide financial statements, provides greater detail on the District's annual activity.

# **AKRON-FAIRGROVE DISTRICT SCHOOLS**

## **Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2006**

### **Financial analysis of the School District's Funds**

The District uses funds to help it control and manage money for particular purposes. The reader can look at these funds to help determine whether the Akron-Fairgrove School District is being held accountable for the resources taxpayers and others provide to it, and it may give them insight in the School District's overall financial health.

Table 2 shows the breakdown of the sources of revenue for the District. A substantial portion (81%) of the District's revenues is received from State sources, which means that the financial stability of the District rests primarily with the economic health of the State of Michigan.

Table 2 shows that 86.7% of the District's resources are spent on instruction services, instructional support services, and food & athletic services. Another 6.0% is spent on interest, while 6.3% is spent for depreciation and amortization and 1.0% on capital projects.

The financial performance of the district as a whole is reflected in its governmental funds. As the School District completed the 2005/2006 school year, the governmental funds reported a combined fund balance of \$998,138. The Fiduciary Funds had a balance of \$46,774.

### **Factors Increasing Fund Equity**

- ◆ *Debt Fund Equity* – Increased \$3,402.

### **Factors Decreasing Fund Equity**

- ◆ *General Fund Equity* – Decreased \$55,612.

*Grants* – The District received grants for professional development, parent programs, at risk, and literacy programs. These help to offset the cost of instructional budget items normally paid from fund equity.

- ◆ *Food Service Fund Equity* – Increased \$10,217.

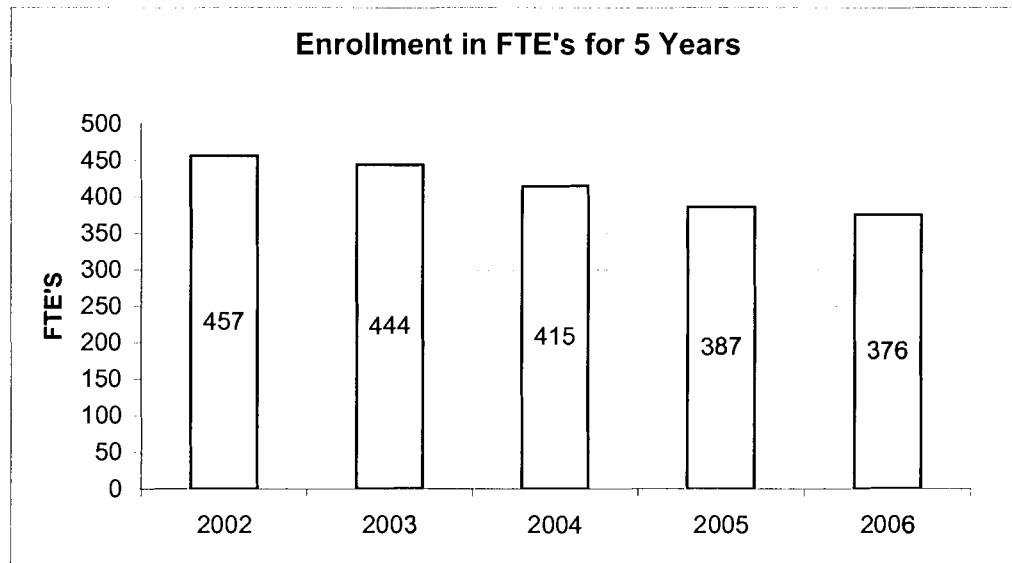


# **AKRON-FAIRGROVE DISTRICT SCHOOLS**

## **Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2006**

### ♦ *Student Enrollment*

The chart below shows the steady decline in enrollment for the past 5 years. There was a decline of 11 students between 2005 and 2006 with state aid at \$6,875 per student this is a loss of revenue of \$75,625.



### **Budget vs. Actual**

The General fund budgeted a deficit of \$153,043 but actually had a deficit of \$55,612: which is a budget variance of \$97,431.

### **General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the School District revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. The final amendment to the budget was actually adopted just before the year-end, along with the new adopted budget for the upcoming school year.

### **Budget Amendment 05/06**

The increase in revenue this year between the beginning budget and the final amended budget totaled \$167,883, with state revenues of \$155,703 being the largest item.

# **AKRON-FAIRGROVE DISTRICT SCHOOLS**

## **Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2006**

On the expenditure side you will notice relatively minor differences. The expenditures decreased by \$58,116 between the beginning budget and the final amended budget.

### **Capital Asset and Debt Administration**

#### ***Capital Assets***

As of June 30, 2006, the School District had \$9,056,949 invested in a broad range of capital assets. The District had capital additions for the year of \$267,004 and retirements of \$99,226 for a net of \$167,778.

The District's capital assets at year-end are outlined in Table 3.

<b>Table 3</b>		
	<b>Governmental Activities</b>	
	<b><u>2005</u></b>	<b><u>2006</u></b>
Buildings	\$7,774,092	\$7,804,521
Buses	346,359	444,467
General Equipment	119,581	126,010
Playground, Athletic, Site Improvement	477,281	499,591
Technology	<u>171,858</u>	<u>182,360</u>
<b>Total</b>	<b><u>\$8,889,171</u></b>	<b><u>\$9,056,949</u></b>

The District's net capital assets show an increase of \$54,142 from 2005, this is a result of depreciation in the amount of \$212,862 and \$267,004 was spent on new capital assets. Depreciation is taken on the assets using the Straight-line method of depreciation. Assets with a cost of \$99,226, which were fully depreciated, were retired during the year.

# **AKRON-FAIRGROVE DISTRICT SCHOOLS**

## **Management's Discussion and Analysis (Continued) For the Fiscal Year Ended June 30, 2006**

### ***Debt Administration***

As of June 30, 2006 the District had debt on the financial statements for Durant bonds with a remaining balance of \$15,763. These are self-liquidating bonds issued by the State of Michigan to fund a special education lawsuit by Michigan school districts. Payment of principal and interest on the bonds is made directly to the State of Michigan. The District has pledged and assigned to bondholders all rights to state aid payments as security for the bond.

As of June 30, 2006 the District had debt on the financial statements for the unrefunded portion of the 1999 Building and Site Bonds in the amount of \$465,000. These bonds will mature from May 1, 2006 through November 1, 2009.

As of June 30, 2006 the District had debt on the financial statements for the 2005 Refunding Bonds in the amount of \$4,570,000. These bonds will mature from May 1, 2007 through May 1, 2025.

As of June 30, 2006 the District had debt on the financial statements for the 2005 QZAB Bond in the amount of \$625,000. This bond will mature in 2020.

As of June 30, 2006 the District had compensated absences, which include accumulated sick and vacation pay, totaling \$89,863.

We present more detailed information about our long-term liabilities in the notes to financial statements.

### **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, parents, students and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Central Office Bookkeeper, Akron-Fairgrove District Schools, 2800 N. Thomas Road, Fairgrove, Michigan, 48733, and telephone number (989) 693-6163.



Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA  
Thomas B. Doran, CPA

Robert L. Tuckey, CPA  
Valerie Jamieson Hartel, CPA  
Jamie L. Peasley, CPA

July 12, 2006

**INDEPENDENT AUDITOR'S REPORT**

Board of Education  
Akron-Fairgrove District Schools  
Fairgrove, Michigan 48733

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Akron-Fairgrove District Schools, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of the Akron Fairgrove District Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the primary government of Akron-Fairgrove District Schools as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2006 on our consideration of Akron-Fairgrove District Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i through viii and 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education  
Akron-Fairgrove District Schools  
July 12, 2006

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the primary government of Akron-Fairgrove District Schools' basic financial statements. The additional information on pages 25 to 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

## BASIC FINANCIAL STATEMENTS

**AKRON-FAIRGROVE DISTRICT SCHOOLS****STATEMENT OF NET ASSETS**

June 30, 2006

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>CURRENT ASSETS</b>	
Cash and equivalents	\$ 703,402
Investments	80,239
Due from other governmental units	528,627
Due from other funds	9,780
Property taxes receivable	1,950
<b>TOTAL CURRENT ASSETS</b>	<b>1,323,998</b>
<b>NONCURRENT ASSETS</b>	
Deferred amount on bond refunding	342,195
Amortization of bond issuance cost	(17,110)
Capital assets	9,056,949
Less accumulated depreciation	(3,151,254)
<b>TOTAL NONCURRENT ASSETS</b>	<b>6,230,780</b>
<b>TOTAL ASSETS</b>	<b>\$ 7,554,778</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 42,101
Accrued salaries	161,104
Accrued benefits	66,997
Accrued interest	39,042
Accrued payroll taxes	12,324
Deferred revenue	31,604
Due to other funds	9,780
Retirement incentives payable	35,000
Current portion of long term debt	171,950
<b>TOTAL CURRENT LIABILITIES</b>	<b>569,902</b>
<b>NONCURRENT LIABILITIES</b>	
Noncurrent portion of long term debt	5,503,813
Noncurrent portion of compensated absences	54,863
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>5,558,676</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	555,017
Restricted for debt service	166,408
Unrestricted	704,775
<b>TOTAL NET ASSETS</b>	<b>1,426,200</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 7,554,778</b>

The accompanying notes are an integral part of the financial statements.

**AKRON FAIRGROVE SCHOOLS**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 1,716,105		\$ 108,269	\$ (1,607,836)
Support services	1,339,573		72,180	(1,267,393)
Community services	10,623			(10,623)
Food services	136,416	\$ 42,902	96,603	3,089
Athletics	116,664	14,487		(102,177)
Capital projects	36,691			(36,691)
Interest and costs on long-term debt	239,654			(239,654)
Amortization	17,110			(17,110)
Unallocated depreciation	212,862			(212,862)
Total governmental activities	<u>\$ 3,825,698</u>	<u>\$ 57,389</u>	<u>\$ 277,052</u>	<u>\$ (3,491,257)</u>
General revenues:				
Property taxes, levied for general purposes				\$ 188,840
Property taxes, levied for debt service				363,881
State sources				2,690,887
Investment revenue				22,675
Transfers from other districts				24,344
Miscellaneous				51,020
Total general revenue				<u>3,341,647</u>
Change in net assets				(149,610)
Net assets, beginning of year				<u>1,575,810</u>
Net assets, end of year				<u>\$ 1,426,200</u>

The accompanying notes are an integral part of the financial statements.



**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2006

	<u>GENERAL FUND</u>	<u>DEBT RETIREMENT</u>	<u>CAPITAL PROJECTS</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>ASSETS</u></b>					
CURRENT ASSETS:					
Cash and equivalents	\$ 157,709	\$ 195,670	\$ 332,756	\$ 17,267	\$ 703,402
Investments	80,239				80,239
Due from other governmental units	527,182			1,445	528,627
Due from other funds	-	9,780		-	9,780
<b>TOTAL ASSETS</b>	<b><u>\$ 765,130</u></b>	<b><u>\$ 205,450</u></b>	<b><u>\$ 332,756</u></b>	<b><u>\$ 18,712</u></b>	<b><u>\$ 1,322,048</u></b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>					
LIABILITIES:					
Accounts payable	\$ 42,101				\$ 42,101
Benefits payable	44,649				44,649
Deferred revenue	31,604				31,604
Due to other funds	9,780			\$ -	9,780
Retirement payable	22,348				22,348
Salaries payable	161,104				161,104
Accrued payroll taxes	12,324				12,324
<b>TOTAL LIABILITIES</b>	<b><u>323,910</u></b>			<b><u>-</u></b>	<b><u>323,910</u></b>
FUND BALANCE:					
Reserved for debt service		\$ 205,450			205,450
Unreserved:					
Designated for capital expenditures			\$ 332,756		332,756
Undesignated	441,220			18,712	459,932
<b>TOTAL FUND BALANCE</b>	<b><u>441,220</u></b>	<b><u>205,450</u></b>	<b><u>332,756</u></b>	<b><u>18,712</u></b>	<b><u>998,138</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 765,130</u></b>	<b><u>\$ 205,450</u></b>	<b><u>\$ 332,756</u></b>	<b><u>\$ 18,712</u></b>	<b><u>\$ 1,322,048</u></b>

The accompanying notes are an integral part of the financial statements.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
Reconciliation of the Governmental Funds Balance Sheet to the  
Statement of Net Assets  
June 30, 2006

**Total Fund Balances - Governmental Funds** **\$ 998,138**

Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not  
financial resources and are not reported in the funds

The cost of the capital assets is:	9,056,949
Accumulated depreciation is:	(3,151,254)

Long term liabilities are not due and payable in the current  
period and are not reported in the funds

Bonds payable:	(5,675,763)
Deferred amount on bond refunding	342,195
Amortization of bond issuance costs	(17,110)
Compensated absences:	(54,863)
Retirement incentives payable:	(35,000)
Accrued interest is not included as a liability in govern- mental funds; it is recorded when paid:	(39,042)

Balance of taxes receivable at 6/30/06 less allowance for doubtful accounts, expected to be collected after September 1, 2006	1,950
--	-------

**Net Assets of Governmental Activities** **\$ 1,426,200**

The accompanying notes are an integral part of the financial statements.

# AKRON-FAIRGROVE DISTRICT SCHOOLS

## Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds For the Year Ended June 30, 2006

	GENERAL FUND	DEBT RETIREMENT	CAPITAL PROJECTS	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>					
Local sources	\$ 246,281	\$ 373,030	\$ 6,654	\$ 57,515	\$ 683,480
State sources	2,671,140	12,745		7,002	2,690,887
Federal sources	180,449			96,603	277,052
Transfers from other districts	24,344				24,344
<b>TOTAL REVENUES</b>	<b>3,122,214</b>	<b>385,775</b>	<b>6,654</b>	<b>161,120</b>	<b>3,675,763</b>
<b>EXPENDITURES</b>					
Instruction	1,694,404				1,694,404
Supporting services	1,336,702				1,336,702
Community services	10,623				10,623
Food services				136,416	136,416
Athletic services				116,664	116,664
Other expenditures			31,276		31,276
Capital Outlay			265,990		265,990
Debt service:					
Principal redemption		163,807			163,807
Interest and fiscal charges		253,198			253,198
<b>TOTAL EXPENDITURES</b>	<b>3,041,729</b>	<b>417,005</b>	<b>297,266</b>	<b>253,080</b>	<b>4,009,080</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>80,485</b>	<b>(31,230)</b>	<b>(290,612)</b>	<b>(91,960)</b>	<b>(333,317)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Bond proceeds - QZAB					-
Proceeds from bond refunding		-			-
Premium received on bond sale		-			-
Payment to bond escrow agent		-			-
Payments for premiums and discounts		-			-
Bond issuance costs		-			-
Fund transfers in		34,632		103,097	137,729
Fund transfers out	(136,097)		(1,632)		(137,729)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(136,097)</b>	<b>34,632</b>	<b>(1,632)</b>	<b>103,097</b>	<b>-</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES &amp; OTHER SOURCES (USES)</b>	<b>(55,612)</b>	<b>3,402</b>	<b>(292,244)</b>	<b>11,137</b>	<b>(333,317)</b>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<b>496,832</b>	<b>202,048</b>	<b>625,000</b>	<b>7,575</b>	<b>1,331,455</b>
<b>FUND BALANCE AT END OF YEAR</b>	<b>\$ 441,220</b>	<b>\$ 205,450</b>	<b>\$ 332,756</b>	<b>\$ 18,712</b>	<b>\$ 998,138</b>

The accompanying notes are an integral part of the financial statements.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
June 30, 2006

**Total net change in fund balances--governmental funds** **\$ (333,317)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(212,862)
Amortization	(17,110)
Capital outlay	267,004

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	52,586
Accrued interest payable at the end of the year	(39,042)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	163,807
--	---------

Compensated absences are reported on the accrual method in the statement of activities and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued absences at the beginning of the year	58,862
Accrued absences at the end of the year	(54,863)

Compensated retirement incentives are reported on the accrual method in the statement of activities and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued retirement incentives at the beginning of the year	-
Accrued retirement incentives at the end of the year	(35,000)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue at the beginning of the year	(1,625)
Accrued revenue at the end of the year	1,950

**Change in net assets of governmental activities** **\$ (149,610)**

The accompanying notes are an integral part of the financial statements.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
June 30, 2006

	<b><u>PRIVATE- PURPOSE TRUST</u></b>	<b><u>AGENCY FUNDS</u></b>
<b>CURRENT ASSETS</b>		
Cash		\$       37,172
Investments	\$    9,602	
<b><i>TOTAL ASSETS</i></b>	<b><u><u>\$    9,602</u></u></b>	<b><u><u>\$       37,172</u></u></b>
 <b>LIABILITIES</b>		
Due to student organizations		\$       37,172
<b><i>TOTAL LIABILITIES</i></b>	<b><u><u>-</u></u></b>	<b><u><u>37,172</u></u></b>
 <b>NET ASSETS</b>		
Reserved for scholarships	\$    9,602	
<b><i>TOTAL NET ASSETS</i></b>	<b><u><u>\$    9,602</u></u></b>	<b><u><u>\$       37,172</u></u></b>

The accompanying notes are an integral part of the financial statements.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
June 30, 2006

	<b><u>PRIVATE- PURPOSE TRUST</u></b>
<b>ADDITIONS</b>	
Interest earnings	\$ 385
Donations	<u>-</u>
Total additions:	<u>385</u>
<b>DEDUCTIONS</b>	
Scholarships awarded	<u>500</u>
<b>CHANGE IN NET ASSETS</b>	<u>(115)</u>
<b>NET ASSETS</b>	
Beginning of year	<u>9,717</u>
End of year	<u><u>\$ 9,602</u></u>

The accompanying notes are an integral part of the financial statements.

## **AKRON-FAIRGROVE DISTRICT SCHOOLS**

### **Notes to Financial Statements For The Year Ended June 30, 2006**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The basic financial statements of the Akron-Fairgrove District Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

#### **REPORTING ENTITY:**

The Akron-Fairgrove District Schools (the "District") is governed by the Akron-Fairgrove District Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

#### **GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as general revenues.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):**

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (Continued):**

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**GOVERNMENTAL FUNDS**

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

**OTHER NON-MAJOR FUNDS**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).



## **AKRON-FAIRGROVE DISTRICT SCHOOLS**

### **Notes to Financial Statements For The Year Ended June 30, 2006**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):**

##### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:**

###### **Accrual Method:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

###### **Modified Accrual Method:**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

###### **State Foundation Revenue:**

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006 the foundation allowance was based on the pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October, 2005 - August, 2006. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

###### **State Categorical Revenue:**

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

###### **Federal Revenue:**

Expenditure-driven grants are recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

# AKRON-FAIRGROVE DISTRICT SCHOOLS

## Notes to Financial Statements For The Year Ended June 30, 2006

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):**

#### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION (Continued):**

#### **ASSETS, LIABILITIES AND EQUITY:**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation of \$96,273,563:

<b><u>FUND</u></b>	<b><u>MILLS</u></b>
General Fund – Non Homestead	18.00
Debt Service Fund	3.75

On June 9, 2003 voters of the District approved the 18.00 mill levy for the years 2004-2013.

# **AKRON-FAIRGROVE DISTRICT SCHOOLS**

## **Notes to Financial Statements For The Year Ended June 30, 2006**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):**

#### **ASSETS, LIABILITIES AND EQUITY (Continued):**

4. Inventories and Prepaid Expenditures.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$2,500. Group purchases are evaluated on a case-by-case basis.

6. Compensated Absences.

Accumulated vacation and sick pay amounts that are expected to be liquidated with expendable available resources are recorded. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

It is the policy of the District that upon the death or retirement or layoff of a teacher from the district, the Board shall pay to the teacher, or his/her estate, a sum equal to \$43 for each unused accumulated sick day, up to a maximum of 180 days.

7. Unemployment Insurance.

The District reimburses the Michigan Employment Security Agency (MESA) for the actual amount of unemployment benefits disbursed by the MESA on behalf of the District. Billings received for amounts paid by the MESA through June 30, are accrued, if material.

# **AKRON-FAIRGROVE DISTRICT SCHOOLS**

## **Notes to Financial Statements For The Year Ended June 30, 2006**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):**

#### **ASSETS, LIABILITIES AND EQUITY, (Continued):**

8. Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Memorandum Only - Total Column.

The total column on the combined general-purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis and do not represent consolidated financial information. Data in these columns do not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

10. Use of Estimates.

The process of preparing general purpose financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

## **AKRON-FAIRGROVE DISTRICT SCHOOLS**

### **Notes to Financial Statements For The Year Ended June 30, 2006**

#### **NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:**

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balances - budget and actual (GAAP Basis) - general, special revenue and debt service funds.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue and debt service fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30.

# AKRON-FAIRGROVE DISTRICT SCHOOLS

## Notes to Financial Statements For The Year Ended June 30, 2006

### **NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK:**

As of June 30, 2006, the District had the following investments.

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted Average Maturity (Years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
MILAF External Investment pool -MIMAX	89,841	0.0027	AAAm	100.0%
Total fair value	<u>\$ 89,841</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$634,115 of the District's bank balance of \$830,415 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counter-party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
Notes to Financial Statements  
For The Year Ended June 30, 2006

**NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK, (Continued):**

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$37,172	\$ 740,574
Investments - including fiduciary funds of \$9,602	89,841
	<u>\$ 830,415</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 37,172
Investments - Private Purpose Trust Fund	9,602
Cash - District wide	703,402
Investments - District wide	80,239
	<u>\$ 830,415</u>

**NOTE 4 – LONG-TERM DEBT:**

The following is a summary of the serial bonds of the school district for the year ended June 30, 2006:

	<b><u>SERIAL</u></b> <b><u>BONDS</u></b>
Balance payable - July 1, 2005	\$5,497,375
1999 School Building and Site Bonds paid	(130,000)
2005 Refunding Bonds Paid	(25,000)
Amortization of Deferred Amount on Bond Refunding	17,110
Durant Principal Payment	<u>(8,807)</u>
Balance payable June 30, 2006	<u>\$5,350,678</u>

# AKRON-FAIRGROVE DISTRICT SCHOOLS

## Notes to Financial Statements For The Year Ended June 30, 2006

### **NOTE 4 – LONG-TERM DEBT, (Continued):**

As of June 30, 2006, the school district had the following outstanding bonds payable:	
2005 QZAB Bond -To be paid in 15 equal annual installments of \$33,649. This bond is interest free.	\$625,000
1999 School Building and Site Bonds to furnish and remodel existing equipment; 5.50% interest.	465,000
1998 Durant Bonds; 8.00% interest.	15,763
Deferred amount on bond refunding	(325,085)
2005 Refunding Bonds; interest from 3.0% to 5.0%. The 2005 Refunding Bonds were authorized by the Board of Education, by resolutions adopted on September 13, 2004 and March 21, 2005 for the purpose of refunding a portion of a prior bond issue of the School District. The Bonds will pledge the full faith and credit of the School District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied on all taxable property in the School District without limitation as to rate or amount.	<u>4,570,000</u>
Total	<u>\$5,350,678</u>

The annual requirements to amortize long-term debt outstanding as of June 30, 2006 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	\$171,950	\$227,442	\$399,392
2008	182,043	218,624	400,667
2009	192,140	209,251	401,391
2010	202,242	199,295	401,537
2011	202,349	192,186	394,535
2012-2016	1,195,039	796,287	1,991,326
2017-2021	2,105,000	508,701	2,613,701
2022-2025	<u>1,425,000</u>	<u>162,006</u>	<u>1,587,006</u>
	5,675,763	2,513,792	8,189,555
Deferred amount on bond refunding	(325,085)		(325,085)
Accumulated compensated absences	<u>89,863</u>	<u>-</u>	<u>89,863</u>
TOTALS	<u>\$5,440,541</u>	<u>\$2,513,792</u>	<u>\$7,954,333</u>

During the year ended June 30, 2005 the District financed the 1999 bonds. New general obligation bonds were issued at a premium of \$82,226 after paying issuance costs of \$106,031, the net proceeds were \$4,571,195. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are paid off on May 1, 2022. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$211,001.

Interest on long-term debt for the year ended June 30, 2006 was \$239,654.



## **AKRON-FAIRGROVE DISTRICT SCHOOLS**

### **Notes to Financial Statements For The Year Ended June 30, 2006**

#### **NOTE 4 – LONG-TERM DEBT, (Continued):**

The annual payments will be deposited with Chemical Bank and Trust Company and will earn interest at the rate of 2.96% per annum. The accumulated amounts will be used to pay off the QZAB bond in 2020.

#### **NOTE 5 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:**

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan, 48909-7671 or by calling (800) 381-5111.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial interest is posted to member accounts on July 1<sup>st</sup> on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005 was 14.87% through September 2005 and 16.34% for October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District's contribution to MPERS for the year ended June 30, 2006, 2005, and 2004 were \$271,809, \$271,279, and \$279,477, respectively, and were equal to the required contributions for those years.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other post-employment benefits – Also within the MPERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPERS with the balance deducted from the monthly pension.

#### **NOTE 6 - OPERATING LEASES:**

The School District entered into a contract to lease Office Data Processing Equipment beginning July 30, 2002 for 66 months, at a cost of \$13,500 per year.

## AKRON-FAIRGROVE DISTRICT SCHOOLS

### Notes to Financial Statements For The Year Ended June 30, 2006

#### **NOTE 7 - RISK MANAGEMENT:**

The District is exposed to risk of loss related to injuries to employees. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance, torts, theft of, damage to and destruction of assets and errors & omissions.

#### **NOTE 8 – DUE TO AND FROM OTHER FUNDS:**

Due to and from other funds balances at June 30, 2006 are as follows:

	<b><u>DUE FROM OTHER FUNDS</u></b>	<b><u>DUE TO OTHER FUNDS</u></b>
General Fund		\$9,780
Debt Retirement Fund:		
1999 Debt	<u>\$9,780</u>	<u>          </u>
Total	<u>\$9,780</u>	<u>\$9,780</u>

#### **NOTE 9 – TRANSFERS:**

The general fund transferred \$103,097 to the athletic fund and \$33,000 to the QZAB Debt Retirement Fund during the current fiscal year.

#### **NOTE 10 – CAPITAL PROJECTS FUND:**

On June 28, 2005 the District borrowed \$625,000 through the Qualified Zone Academy Bond Program for the purpose of remodeling, equipping, reequipping, furnishing and re-furnishing school buildings; acquiring school buses; and developing and improving athletic facilities, playgrounds and sites. The bonds are to be repaid with fifteen annual installments of \$33,649 commencing on June 28, 2006 being paid into a Trust Account to provide the funds to repay the bond principal in one payment of \$625,000 on June 28, 2020. The bonds are interest-free and the balance on June 30, 2006 is \$625,000. The balance in this trust account at June 30, 2006 is \$33,649.

**AKRON-FAIRGROVE DISTRICT SCHOOLS****Notes to Financial Statements  
For The Year Ended June 30, 2006****NOTE 11 - CHANGES IN GENERAL FIXED ASSETS:**

A summary of changes in general fixed assets follows:

	<b>BALANCE MARCH 31, <u>2005</u></b>	<b><u>ADDITIONS</u></b>	<b><u>REDUCTIONS</u></b>	<b>BALANCE MARCH 31, <u>2006</u></b>
Buildings	\$7,774,092	\$30,429		\$7,804,521
General Equipment	119,581	6,429		126,010
Buses	346,359	178,534	(\$80,426)	444,467
Technology	171,858	10,502		182,360
Playground, Athletic, & Site Improvement	<u>477,281</u>	<u>41,110</u>	<u>(18,800)</u>	<u>499,591</u>
TOTAL GENERAL FIXED ASSETS	8,889,171	267,004	(99,226)	9,056,949
Accumulated Depreciation	(3,037,618)	(212,862)	99,226	(3,151,254)
NET ASSETS	<u>\$5,851,553</u>	<u>\$54,142</u>	<u>NONE</u>	<u>\$5,905,695</u>

## REQUIRED SUPPLEMENTARY INFORMATION

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	<b>BUDGET</b>			<b>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>ACTUAL</b>	
REVENUES:				
Local sources	\$ 197,000	\$ 255,872	\$ 246,281	\$ (9,591)
State sources	2,512,833	2,668,536	2,671,140	2,604
Federal sources	176,243	179,777	180,449	672
Transfers from other districts	65,850	15,624	24,344	8,720
<b>TOTAL REVENUES</b>	<b>2,951,926</b>	<b>3,119,809</b>	<b>3,122,214</b>	<b>2,405</b>
EXPENDITURES:				
Instruction	1,823,028	1,727,280	1,694,404	32,876
Supporting services	1,354,506	1,395,062	1,336,702	58,360
Community services	14,276	11,352	10,623	729
<b>TOTAL EXPENDITURES</b>	<b>3,191,810</b>	<b>3,133,694</b>	<b>3,041,729</b>	<b>91,965</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(239,884)	(13,885)	80,485	94,370
OTHER FINANCING SOURCES (USES):				
Transfer to Other Funds	(104,736)	(139,158)	(136,097)	3,061
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(104,736)</b>	<b>(139,158)</b>	<b>(136,097)</b>	<b>3,061</b>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	(344,620)	(153,043)	(55,612)	97,431
FUND BALANCE - BEGINNING OF YEAR	496,832	496,832	496,832	-
FUND BALANCE - END OF YEAR	\$ 152,212	\$ 343,789	\$ 441,220	\$ 97,431

See the accompanying notes.

## ADDITIONAL INFORMATION

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUND TYPES**  
June 30, 2006

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2006</u>
<b><u>ASSETS</u></b>		
CURRENT ASSETS:		
Cash	\$ 17,267	\$ 17,267
Due from other governmental units	1,445	1,445
Due from other funds	-	-
<b>TOTAL ASSETS</b>	<b><u>\$ 18,712</u></b>	<b><u>\$ 18,712</u></b>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>		
LIABILITIES:		
Due to other funds	\$ -	\$ -
 FUND BALANCE:		
Unreserved	18,712	18,712
 TOTAL FUND BALANCE	18,712	18,712
 <b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b><u>\$ 18,712</u></b>	<b><u>\$ 18,712</u></b>

See the accompanying notes.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUND TYPES**  
**YEAR ENDED JUNE 30, 2006**

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2006</u>
REVENUES:		
Local sources		
Sales of meals and milk	\$ 42,902	\$ 42,902
Admissions	14,487	14,487
Interest	126	126
Other	-	-
	<u>57,515</u>	<u>57,515</u>
Total local sources		
	<u>57,515</u>	<u>57,515</u>
State sources		
State aid	7,002	7,002
	<u>7,002</u>	<u>7,002</u>
Federal sources		
National School Lunch Program	82,075	82,075
USDA Commodities	14,528	14,528
	<u>96,603</u>	<u>96,603</u>
Total federal sources		
	<u>96,603</u>	<u>96,603</u>
TOTAL REVENUES	<u>161,120</u>	<u>161,120</u>
EXPENDITURES:		
Food services	136,416	136,416
Athletics	116,664	116,664
	<u>253,080</u>	<u>253,080</u>
TOTAL EXPENDITURES		
	<u>253,080</u>	<u>253,080</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(91,960)</u>	<u>(91,960)</u>
OTHER FINANCING SOURCES (USES):		
Fund transfers in	103,097	103,097
	<u>103,097</u>	<u>103,097</u>
TOTAL OTHER FINANCING SOURCES (USES)		
	<u>103,097</u>	<u>103,097</u>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>11,137</u>	<u>11,137</u>
FUND BALANCE - BEGINNING OF YEAR	<u>7,575</u>	<u>7,575</u>
FUND BALANCE - END OF YEAR	<u>\$ 18,712</u>	<u>\$ 18,712</u>

See the accompanying notes.



**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS) -**  
**GENERAL AND SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>GENERAL FUND</b>		
	<b>BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
<b>REVENUES</b>			
Local sources	\$ 255,872	\$ 246,281	\$ (9,591)
State sources	2,668,536	2,671,140	2,604
Federal sources	179,777	180,449	672
Transfers from other districts	15,624	24,344	8,720
<b>TOTAL REVENUES</b>	<b>3,119,809</b>	<b>3,122,214</b>	<b>2,405</b>
<b>EXPENDITURES</b>			
Instruction	1,727,280	1,694,404	32,876
Supporting services	1,395,062	1,336,702	58,360
Community services	3,760	10,623	(6,863)
Food services			
Athletic services			
<b>TOTAL EXPENDITURES</b>	<b>3,126,102</b>	<b>3,041,729</b>	<b>84,373</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(6,293)</b>	<b>80,485</b>	<b>86,778</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Fund transfers in			
Fund transfers out	(139,158)	(136,097)	3,061
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(139,158)</b>	<b>(136,097)</b>	<b>3,061</b>
<b>EXCESS (DEFICIENCY) OR REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)</b>	<b>(145,451)</b>	<b>(55,612)</b>	<b>89,839</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>496,832</b>	<b>496,832</b>	<b>-</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 351,381</b>	<b>\$ 441,220</b>	<b>\$ 89,839</b>

See the accompanying notes.

**SPECIAL REVENUE FUND**

<b>BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
\$ 49,575	\$ 57,515	\$ 7,940
7,000	7,002	2
85,000	96,603	11,603
<u>141,575</u>	<u>161,120</u>	<u>19,545</u>
148,358	136,416	11,942
122,053	116,664	5,389
270,411	253,080	17,331
<u>(128,836)</u>	<u>(91,960)</u>	<u>36,876</u>
109,553	103,097	(6,456)
-	-	-
109,553	103,097	(6,456)
<u>(19,283)</u>	<u>11,137</u>	<u>30,420</u>
7,575	7,575	-
<u>\$ (11,708)</u>	<u>\$ 18,712</u>	<u>\$ 30,420</u>

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
<b>LOCAL SOURCES:</b>			
Property taxes	\$ 189,882	\$ 187,989	\$ (1,893)
Delinquent taxes	-	526	526
Interest income	8,900	12,066	3,166
Drivers education fees	2,800	3,820	1,020
Transportation reimbursements	11,000	-	(11,000)
Other	43,290	41,880	(1,410)
<b>Total Local Sources</b>	<u>255,872</u>	<u>246,281</u>	<u>(9,591)</u>
<b>STATE SOURCES:</b>			
Foundation Grant	2,508,969	2,512,169	3,200
Drivers Education	-	-	-
Michigan school readiness	75,900	75,501	(399)
At Risk	79,821	79,624	(197)
Durant Funds	3,846	3,846	-
Other	-	-	-
<b>Total State Sources</b>	<u>2,668,536</u>	<u>2,671,140</u>	<u>2,604</u>
<b>FEDERAL SOURCES:</b>			
Title I	119,220	112,397	(6,823)
Title V	3,018	10,828	7,810
Title II	37,655	36,016	(1,639)
Technology Literacy Challenge Grant	2,224	-	(2,224)
Eisenhower Grant	-	-	-
Voc Ed Basic Grant EDP's	-	-	-
Drug Consortium	-	1,394	1,394
Handicapped	400	477	77
Tech Prep	-	2,077	2,077
Miscellaneous	17,260	17,260	-
<b>Total Federal Sources</b>	<u>179,777</u>	<u>180,449</u>	<u>672</u>
<b>OTHER TRANSACTIONS:</b>			
Incoming Transfers:			
TISD	4,847	12,644	7,797
Other	10,777	11,700	923
<b>Total Transfers</b>	<u>15,624</u>	<u>24,344</u>	<u>8,720</u>
<b>TOTAL REVENUES</b>	<u><u>\$ 3,119,809</u></u>	<u><u>\$ 3,122,214</u></u>	<u><u>\$ 2,405</u></u>

See the accompanying notes.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
BASIC PROGRAMS:			
AKRON ELEMENTARY:			
Salaries:			
Teachers	\$ 320,287	\$ 317,500	\$ 2,787
Aides	29,750	36,147	(6,397)
Substitutes	8,500	7,741	759
Other professional salaries	-	-	-
Employee benefits	205,290	198,307	6,983
Purchased services	10,455	8,441	2,014
Workshops and conferences	150	-	150
Teaching supplies & materials	8,150	8,195	(45)
Capital outlay	-	-	-
Fees & dues	1,220	1,217	3
Total Akron Elementary	<u>583,802</u>	<u>577,548</u>	<u>6,254</u>
SECONDARY:			
Salaries:			
Teachers	464,463	464,180	283
Aides	10,173	10,139	34
Substitutes	10,000	10,137	(137)
Other professional salaries	16,238	16,238	-
Employee benefits	249,432	228,298	21,134
Travel, workshops & conferences	250	253	(3)
Purchased services	16,380	15,928	452
Teaching supplies & materials	8,360	8,191	169
Capital outlay	-	-	-
Fees & dues	2,045	2,039	6
Total Secondary	<u>777,341</u>	<u>755,403</u>	<u>21,938</u>

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
BASIC PROGRAMS, (Continued):			
BASIC PROGRAMS/ ADDED NEEDS:			
Title I	\$ 109,474	\$ 108,396	\$ 1,078
At Risk			
Salaries & benefits	109,176	106,626	2,550
Purchased services	-	-	-
Teaching supplies & materials	570	564	6
Special Education:			
Salaries:			
Teachers	85,304	86,236	(932)
Aides	1,500	-	1,500
Substitutes	3,100	2,715	385
Employee benefits	55,913	55,726	187
Travel, workshops & conferences	50	50	-
Teaching supplies & materials	1,050	1,140	(90)
Fees & dues	-	-	-
Total Added Needs	<u>366,137</u>	<u>361,453</u>	<u>4,684</u>
TOTAL INSTRUCTION:	<u>\$ 1,727,280</u>	<u>\$ 1,694,404</u>	<u>\$ 32,876</u>
SUPPORTING SERVICES:			
GUIDANCE SERVICES:			
Salaries:			
Counseling	15,967	15,652	315
Truancy	2,300	2,300	-
Employee benefits	7,347	6,450	897
Travel, workshops & conferences	100	-	100
Supplies	100	-	100
Fees & dues	<u>130</u>	<u>-</u>	<u>130</u>
Total Guidance Services	<u>25,944</u>	<u>24,402</u>	<u>1,542</u>

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
INSTRUCTIONAL STAFF:			
Eisenhower Grant	\$ -	\$ -	\$ -
Career Education	-	-	-
Michigan School Readiness	75,900	75,501	399
Title V	3,018	10,828	(7,810)
Title II	41,072	36,016	5,056
FFA Grant	-	-	-
DTE Energy Grant	270	-	270
Tech Prep teaching workshops	2,077	2,077	-
Medicaid incentives	-	-	-
MIBSLI Grant	5,000	7,538	(2,538)
Drug education consortium	1,500	1,394	106
Federal Rural Education	15,335	15,335	-
District wide testing	500	450	50
Total Instructional Staff	<u>144,672</u>	<u>149,139</u>	<u>(4,467)</u>
LIBRARY & A-V:			
Salaries:			
Librarians	-	-	-
Library aides	12,124	10,852	1,272
Employee benefits	1,193	1,086	107
Purchased service	300	292	8
Supplies & materials	1,440	1,410	30
Capital outlay	115	111	4
Total Library and A-V	<u>15,172</u>	<u>13,751</u>	<u>1,421</u>

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
BOARD OF EDUCATION:			
Salaries:			
Board members	\$ 4,193	\$ 4,193	\$ -
Legal fees	5,000	5,461	(461)
Audit fees	6,500	6,500	-
Workshops & conferences	2,200	2,164	36
Advertising	1,000	1,010	(10)
Insurance & bonds	-	-	-
Purchased services	23,700	24,763	(1,063)
Election expenses	850	846	4
Miscellaneous supplies	3,500	3,785	(285)
Fees & dues	50	50	-
Capital outlay	-	-	-
Total Board of Education	<u>46,993</u>	<u>48,772</u>	<u>(1,779)</u>
EXECUTIVE ADMINISTRATION:			
Salaries:			
Superintendent	87,505	87,505	-
Secretarial	36,754	31,293	5,461
Employee benefits	35,666	32,458	3,208
Workshops & conferences	5,425	4,797	628
Purchased services	9,000	10,240	(1,240)
Office supplies	4,000	3,860	140
Capital outlay	-	-	-
Fees & dues	1,000	948	52
Total Executive Administration	<u>179,350</u>	<u>171,101</u>	<u>8,249</u>
SCHOOL ADMINISTRATION:			
Salaries:			
Principals	131,449	131,095	354
Secretarial	48,059	49,197	(1,138)
Employee benefits	81,975	81,478	497
Travel, workshops & conferences	1,650	1,453	197
Office supplies	2,700	3,012	(312)
Purchased services	200	126	74
Capital outlay	-	-	-
Fees & dues	515	515	-
Total School Administration	<u>266,548</u>	<u>266,876</u>	<u>(328)</u>

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
FISCAL & OTHER BUSINESS SERVICES:			
Bookkeeper	\$ 38,210	\$ 38,320	\$ (110)
Employee benefits	16,390	15,982	408
Data processing	5,000	4,250	750
Insurance & bonds	3,500	3,484	16
Miscellaneous	39,310	6,000	33,310
Total Fiscal & Other Business Services	<u>102,410</u>	<u>68,036</u>	<u>34,374</u>
OPERATION & MAINTENANCE:			
Custodial wages	153,532	152,000	1,532
Employee benefits	95,706	94,823	883
Travel	150	194	(44)
Telephone	13,000	12,933	67
Utilities	149,305	135,010	14,295
Maintenance of equipment	12,500	17,456	(4,956)
Purchased services	9,200	8,179	1,021
Supplies	22,500	18,303	4,197
Capital outlay	6,450	6,429	21
Fees & dues	-	-	-
Total Operation & Maintenance	<u>462,343</u>	<u>445,327</u>	<u>17,016</u>
PUPIL TRANSPORTATION:			
Salaries:			
Supervisor	4,750	4,028	722
Vehicle operator	48,000	49,166	(1,166)
Special trips	12,000	11,607	393
Employee benefits	25,335	24,786	549
Travel, workshops & conferences	4,730	4,753	(23)
Purchased services	27,565	25,188	2,377
Gas & oil	27,000	27,739	(739)
Repairs	1,100	1,002	98
Supplies & materials	1,150	1,029	121
Capital outlay	-	-	-
Total Pupil Transportation	<u>151,630</u>	<u>149,298</u>	<u>2,332</u>
TOTAL SUPPORTING SERVICES	<u>\$ 1,395,062</u>	<u>\$ 1,336,702</u>	<u>\$ 58,360</u>



**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
COMMUNITY SERVICES:			
DRIVER EDUCATION:			
Purchased service	\$ 3,000	\$ 2,939	\$ 61
Vehicle rental and repairs	60	58	2
Auto Insurance	400	400	-
Teaching supplies	-	-	-
Gas, oil, and grease	300	-	300
	<u>3,760</u>	<u>3,397</u>	<u>363</u>
Total Driver Education	<u>3,760</u>	<u>3,397</u>	<u>363</u>
LATCH KEY:			
Professional salary	-	-	-
Aide salary	5,807	5,516	291
Employee benefits	1,395	1,319	76
Supplies	390	391	(1)
Other	-	-	-
	<u>7,592</u>	<u>7,226</u>	<u>366</u>
Total Latch Key	<u>7,592</u>	<u>7,226</u>	<u>366</u>
TOTAL COMMUNITY SERVICES	<u>11,352</u>	<u>10,623</u>	<u>729</u>
OUTGOING TRANSFERS AND OTHER:			
Transfer to Capital Project - QZAB Fund	33,649	33,000	649
Transfer to Athletic Fund	105,509	103,097	2,412
	<u>139,158</u>	<u>136,097</u>	<u>3,061</u>
TOTAL OUTGOING TRANSFERS AND OTHER	<u>139,158</u>	<u>136,097</u>	<u>3,061</u>
TOTAL EXPENDITURES AND OUTGOING TRANSFERS	<u>\$ 3,272,852</u>	<u>\$ 3,177,826</u>	<u>\$ 95,026</u>

See the accompanying notes.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEET**  
June 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL</u>
<b><u>ASSETS</u></b>			
Cash and investments	\$ 14,004	\$ 3,263	\$ 17,267
Due from other governmental units	<u>1,445</u>	<u></u>	<u>1,445</u>
<b><i>TOTAL ASSETS</i></b>	<b><u><u>\$ 15,449</u></u></b>	<b><u><u>\$ 3,263</u></u></b>	<b><u><u>\$ 18,712</u></u></b>
 <b><u>LIABILITIES &amp; FUND EQUITY</u></b>			
LIABILITIES:			
Accounts payable			-
Due to other funds	<u>\$ -</u>	<u></u>	<u>\$ -</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>
 FUND BALANCE:			
Fund Balance	<u>\$ 15,450</u>	<u>\$ 3,262</u>	<u>\$ 18,712</u>
<b>TOTAL FUND BALANCE</b>	<u>15,450</u>	<u>3,262</u>	<u>18,712</u>
<b><i>TOTAL LIABILITIES &amp; FUND BALANCE</i></b>	<b><u><u>\$ 15,450</u></u></b>	<b><u><u>\$ 3,262</u></u></b>	<b><u><u>\$ 18,712</u></u></b>

See the accompanying notes.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**SPECIAL REVENUE FUNDS**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u><b>FOOD SERVICES</b></u>	<u><b>ATHLETIC ACTIVITIES</b></u>	<u><b>COMBINED</b></u>
<b>REVENUES:</b>			
Local Sources:			
Sales of meals and milk	\$ 42,902		\$ 42,902
Admissions		\$ 14,487	14,487
Interest	126		126
Other	-		-
	<u>43,028</u>	<u>14,487</u>	<u>57,515</u>
Total Local Sources			
State sources			
State aid	<u>7,002</u>		<u>7,002</u>
Federal sources			
National School Lunch Program	82,075		82,075
USDA Commodities	<u>14,528</u>		<u>14,528</u>
Total Federal Sources	<u>96,603</u>		<u>96,603</u>
<b>TOTAL REVENUES</b>	<u><b>146,633</b></u>	<u><b>14,487</b></u>	<u><b>161,120</b></u>
<b>EXPENDITURES:</b>			
Salaries and wages	58,769	78,991	137,760
Employee benefits	11,509	14,005	25,514
Food and milk	61,619		61,619
Capital Outlay	-		
Supplies and other costs	<u>4,519</u>	<u>23,668</u>	<u>28,187</u>
<b>TOTAL EXPENDITURES</b>	<b>136,416</b>	<b>116,664</b>	<b>253,080</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u><b>10,217</b></u>	<u><b>(102,177)</b></u>	<u><b>(91,960)</b></u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Fund transfers in		103,097	103,097
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)</b>	<u><b>10,217</b></u>	<u><b>920</b></u>	<u><b>11,137</b></u>
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<b>5,233</b>	<b>2,342</b>	<b>7,575</b>
<b>FUND BALANCE AT END OF YEAR</b>	<u><u><b>\$ 15,450</b></u></u>	<u><u><b>\$ 3,262</b></u></u>	<u><u><b>\$ 18,712</b></u></u>

See the accompanying notes.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**DEBT RETIREMENT FUNDS**  
**COMBINING BALANCE SHEET**  
June 30, 2006

	<b><u>DURANT DEBT SERVICE</u></b>	<b><u>1999 BUILDING BONDS</u></b>	<b><u>QZAB DEBT SERVICE</u></b>	<b><u>TOTALS DEBT SERVICE JUNE 30, 2006</u></b>	<b><u>2005</u></b>
<b><u>ASSETS</u></b>					
Cash	\$ -	\$ 161,016	\$ 34,654	\$ 195,670	\$ 202,048
Due from other funds	<u>          </u>	<u>9,780</u>	<u>          </u>	<u>9,780</u>	<u>          </u>
Total Assets	<u>          </u>	<u>\$ 170,796</u>	<u>\$ 34,654</u>	<u>\$ 205,450</u>	<u>\$ 202,048</u>
<b><u>FUND BALANCES</u></b>					
Fund balances	<u>\$ -</u>	<u>\$ 170,796</u>	<u>\$ 34,654</u>	<u>\$ 205,450</u>	<u>\$ 202,048</u>

See the accompanying notes.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**DEBT RETIREMENT FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2006**

	<u>DURANT DEBT SERVICE</u>	<u>1999 BUILDING BONDS</u>	<u>QZAB DEBT SERVICE</u>	<u>TOTALS DEBT SERVICE JUNE 30,</u>	
				<u>2006</u>	<u>2005</u>
REVENUES:					
Local Sources:					
Property taxes		\$ 363,881		\$ 363,881	\$ 424,463
Interest		3,807	\$ 22	3,829	2,854
Total Local Sources	-	367,688	22	367,710	427,317
State Sources	12,745	-		12,745	-
Other Revenue		5,320		5,320	-
<b>TOTAL REVENUES</b>	<u>12,745</u>	<u>373,008</u>	<u>22</u>	<u>385,775</u>	<u>427,317</u>
EXPENDITURES:					
Debt Service:					
Principal repayment	8,807	155,000	-	163,807	115,000
Interest and other fiscal charges	3,938	249,260		253,198	163,895
<b>TOTAL EXPENDITURES</b>	<u>12,745</u>	<u>404,260</u>	<u>-</u>	<u>417,005</u>	<u>278,895</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(31,252)	22	(31,230)	148,422
OTHER FINANCING SOURCES (USES):					
Transfer from General Fund			33,000	33,000	-
Transfer from QZAB Capital Projects Fund			1,632	1,632	-
Proceeds from bond refunding		-	-	-	4,595,000
Premium received on bond sale				-	82,226
Payment to bond escrow agent		-	-	-	(4,782,195)
Payments for premiums and discounts		-	-	-	(37,325)
Bond issuance costs		-	-	-	(53,298)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>		<u>-</u>	<u>34,632</u>	<u>34,632</u>	<u>(195,592)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)		(31,252)	34,654	3,402	(47,170)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>-</u>	<u>202,048</u>	<u>-</u>	<u>202,048</u>	<u>249,218</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 170,796</u>	<u>\$ 34,654</u>	<u>\$ 205,450</u>	<u>\$ 202,048</u>

See the accompanying notes.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**TRUST AND AGENCY FUNDS**  
**COMBINING BALANCE SHEET**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>PERMANENT FUND</u>	<u>STUDENT ACTIVITIES FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash		\$ 37,172	\$ 37,172
Investments	\$ 9,602		9,602
<b>TOTAL ASSETS</b>	<u><u>\$ 9,602</u></u>	<u><u>\$ 37,172</u></u>	<u><u>\$ 46,774</u></u>
 <b>LIABILITIES AND FUND EQUITY</b>			
Liabilities:			
Due to student groups		\$ 37,172	\$ 37,172
Total Liabilities	<u>-</u>	<u>37,172</u>	<u>37,172</u>
Fund Balance:			
Fund balance:			
Reserved for scholarships	\$ 9,602		9,602
Total Fund Balance	<u>9,602</u>	<u>-</u>	<u>9,602</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 9,602</u></u>	<u><u>\$ 37,172</u></u>	<u><u>\$ 46,774</u></u>

See the accompanying notes.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**TRUST AND AGENCY FUNDS**  
**PERMANENT FUND**  
**BALANCE SHEET**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>JOY MCCREEDY SCHOLARSHIP TRUST</b>
<b>ASSETS</b>	
Investments	\$ 9,602
<b>TOTAL ASSETS</b>	<b>\$ 9,602</b>
<b>LIABILITIES AND FUND EQUITY</b>	
Liabilities:	
Scholarships payable	-
Fund Balance:	
Fund balance:	
Reserved	\$ 9,602
Total Fund Balance	9,602
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 9,602</b>

See the accompanying notes.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**TRUST AND AGENCY FUNDS**  
**PERMANENT FUND**  
**SCHEDULE OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>JOY MCCREEDY SCHOLARSHIP TRUST</b>
REVENUES	
Local revenues:	
Interest on Investments	\$ 385
Donation	
Total Revenues	<u>385</u>
EXPENDITURES	
Scholarships awarded	<u>500</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(115)</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>9,717</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 9,602</u></u>

See the accompanying notes.



**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**TRUST AND AGENCY FUNDS**  
**STUDENT ACTIVITIES FUND**  
**SCHEDULE OF RECEIPTS,**  
**DISBURSEMENTS AND CHANGE IN BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<b>BALANCE JUNE 30, 2005</b>	<b>CASH RECEIPTS</b>	<b>CASH DISBURSEMENTS</b>	<b>BALANCE JUNE 30, 2006</b>
<b>STUDENT ACTIVITIES:</b>				
7th/8th Grade SC	\$ 1,520	\$ 5,573	\$ 5,940	\$ 1,153
AG Science Fund Raiser	64	2,477	2,195	346
Ag Science Scholarship	34	1,503	1,500	37
AK-FG Elementary	8,238	17,412	14,900	10,750
Athletic Fund Raiser	1,495	1,680	1,758	1,417
Athletic JV Girl BB	-	161	10	151
Athletic Softball Acct.	-	618	618	-
Athletic Girls Volleyball	-	165	165	-
Band	(17)	164	44	103
Boys Basketball	405	1,637	1,249	793
Board of Education	100	-	-	100
Bookstore	1,867	394	819	1,442
Class of 2004	-	48	48	-
Class of 2005	55	-	56	(1)
Class of 2006	6,956	1,211	4,858	3,309
Class of 2007	6,426	6,278	8,077	4,627
Class of 2008	1,175	8,837	3,403	6,609
Class of 2009	-	1,389	943	446
Co-op Preschool	-	1,922	1,922	-
Cross Country	35	706	717	24
Girls Basketball	21	1,656	1,672	5
High School Flower Fund	146	330	321	155
High School Miscellaneous	41	80	92	29
High School Principal	169	117	-	286
JV Boys Basketball	120	273	177	216
Kindergarden/6th Grade SC	259	447	543	163
Library	92	3	35	60
Lock Rental	376	35	30	381
Lunch Account	-	-	-	-
National Honor Society	21	-	-	21
Science	-	84	-	84
Spanish Club	266	823	702	387
Special Account	871	4,825	4,805	891
Special Education	374	173	194	353
Student Council	825	3,077	3,087	815
Vehicle Parking	380	-	-	380
Yearbook	1,202	3,674	3,236	1,640
<b>TOTAL STUDENT ACTIVITIES</b>	<b>\$ 33,516</b>	<b>\$ 67,772</b>	<b>\$ 64,116</b>	<b>\$ 37,172</b>

See the accompanying notes.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**SCHEDULE OF BONDED DEBT - DURANT BONDS**  
June 30, 2006

\$38,459 Durant Bond issued November 24, 1998:

<b>PRINCIPAL DUE</b> <b>MAY 15</b>	<b>INTEREST DUE</b> <b>MAY 15</b>	<b>DEBT SERVICE REQUIREMENT</b> <b>FOR FISCAL YEAR</b>	
		<b>JUNE 30</b>	<b>AMOUNT</b>
\$ 1,950	\$ 750	2007	\$ 2,700
2,043	658	2008	2,701
2,140	561	2009	2,701
2,242	459	2010	2,701
2,349	352	2011	2,701
2,461	240	2012	2,701
2,578	122	2013	2,700
<b>\$ 15,763</b>	<b>\$ 3,142</b>		<b>\$ 18,905</b>

The above bond issue bears interest at 8.00%. The bond proceeds were used for roof repairs and partial payment of a bus purchase. The State of Michigan revised the debt repayment schedule during the 2002-2003 school year eliminating the payments for years 2004-2005.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

See the accompanying notes.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**SCHEDULE OF BONDED DEBT -**  
**1999 SCHOOL BUILDING AND SITE BONDS**  
June 30, 2006

<u>PAYMENT DATE</u>	<u>PRINCIPAL DUE</u>	<u>INTEREST RATE</u>	<u>INTEREST DUE</u>	<u>TOTAL PAYMENT</u>
11/1/2006			\$ 12,788	\$ 12,788
5/1/2007	\$ 145,000	5.50%	12,788	157,788
11/1/2007			8,800	8,800
5/1/2008	155,000	5.50%	8,800	163,800
11/1/2008			4,537	4,537
5/1/2009	<u>165,000</u>	5.50%	<u>4,537</u>	<u>169,537</u>
	<u>\$ 465,000</u>		<u>\$ 52,250</u>	<u>\$ 517,250</u>

**PURPOSE AND SECURITY:** The bonds were authorized at an election on September 23, 1999, for the purpose of erecting, furnishing, and equipping additions to and remodeling, refurbishing, and re-equipping school buildings, acquiring and installing educational technology system improvements and developing and improving sites. The Bonds will pledge the full faith, credit and resources of the School District for payment of the principal and interest thereon, and will be payable from ad valorem taxes which may be levied without limitation as to rate or amount as provided by Article IX, Section 6, and Article IX, Section 16, of the Michigan Constitution of 1963.

See the accompanying notes.

**AKRON-FAIRGROVE DISTRICT SCHOOLS**  
**SCHEDULE OF BONDED DEBT -**  
**2005 REFUNDING BONDS**  
June 30, 2006

<u>PAYMENT DATE</u>	<u>PRINCIPAL DUE</u>	<u>INTEREST RATE</u>	<u>INTEREST DUE</u>	<u>TOTAL PAYMENT</u>
11/1/2006			\$ 100,558	\$ 100,558
5/1/2007	\$ 25,000	3.000%	100,558	125,558
11/1/2007			100,183	100,183
5/1/2008	25,000	3.000%	100,183	125,183
11/1/2008			99,808	99,808
5/1/2009	25,000	3.125%	99,808	124,808
11/1/2009			99,418	99,418
5/1/2010	200,000	3.500%	99,418	299,418
11/1/2010			95,917	95,917
5/1/2011	200,000	5.000%	95,917	295,917
11/1/2011			90,918	90,918
5/1/2012	215,000	5.000%	90,918	305,918
11/1/2012			85,542	85,542
5/1/2013	225,000	5.000%	85,542	310,542
11/1/2013			79,918	79,918
5/1/2014	240,000	5.000%	79,918	319,918
11/1/2014			73,917	73,917
5/1/2015	250,000	5.000%	73,917	323,917
11/1/2015			67,668	67,668
05/01/14 - 05/01/25	<u>3,165,000</u>		<u>738,375</u>	<u>3,903,375</u>
	<u>\$ 4,570,000</u>		<u>\$ 2,458,401</u>	<u>\$ 7,028,401</u>

The 2005 Refunding Bonds (the "Bonds") were authorized by the Board of Education of Akron-Fairgrove Schools, County of Tuscola, State of Michigan (the "School District") by resolutions adopted on September 13, 2004 and March 21, 2005 (the "Resolutions") for the purpose of refunding a portion of a prior bond issue of the School District. The Bonds will pledge the full faith and credit of the School District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied on all taxable property in the School District without limitation as to rate or amount.

See the accompanying notes.

# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA  
Thomas B. Doran, CPA

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Robert L. Tuckey, CPA  
Valerie Jamieson Hartel, CPA  
Jamie L. Peasley, CPA

July 12, 2006

To the Board of Education  
Akron-Fairgrove School District  
Fairgrove, MI 48733

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Akron-Fairgrove District Schools as of and for the year ended June 30, 2006, which collectively comprise Akron-Fairgrove District Schools basic financial statements of the District's primary government and have issued our report thereon dated July 12, 2006. Our opinion is for the primary government only and not for the primary reporting entity. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Akron-Fairgrove District Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Akron-Fairgrove District Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Akron-Fairgrove District Schools in a separate letter dated July 12, 2006.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

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July 12, 2006

To the Board of Education  
Akron-Fairgrove District Schools  
Fairgrove, Michigan

In planning and performing our audit of the financial statements of Akron-Fairgrove District Schools for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated July 12, 2006, on the financial statements of Akron-Fairgrove District Schools.

## Current Year Comments

### Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the fund balance, beyond what was approved in total by the school board.

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We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act we believe the District's current budget procedures are adequate.

#### Cash Management – Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. 30-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the District request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

#### Small Staff

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist because of the small accounting staff in the School District.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

Due to the limited number of people working in the business office, we recommend that the Board review the schools internal controls. We also recommend that someone from the Board or administrative staff periodically review bank statements, bank reconciliations, and cancelled checks.

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Internal Control Procedures

Since the receipts and disbursements of the athletic, hot lunch, and student activity funds are not under the same scrutiny as the general fund we recommend that the Board periodically review the internal control procedures of each of these funds.

We recommend that the District review internal control procedures for the athletic, hot lunch, and student activity funds including cash receipts procedures and expense approval procedures.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Akron-Fairgrove District Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

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Certified Public Accountants